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**TESTIMONY OF JENNY REED, POLICY DIRECTOR
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**At the Public Roundtable on
Motor Vehicle Fuel Tax in the District of Columbia
District of Columbia Committee on Finance and Revenue
June 12, 2013**

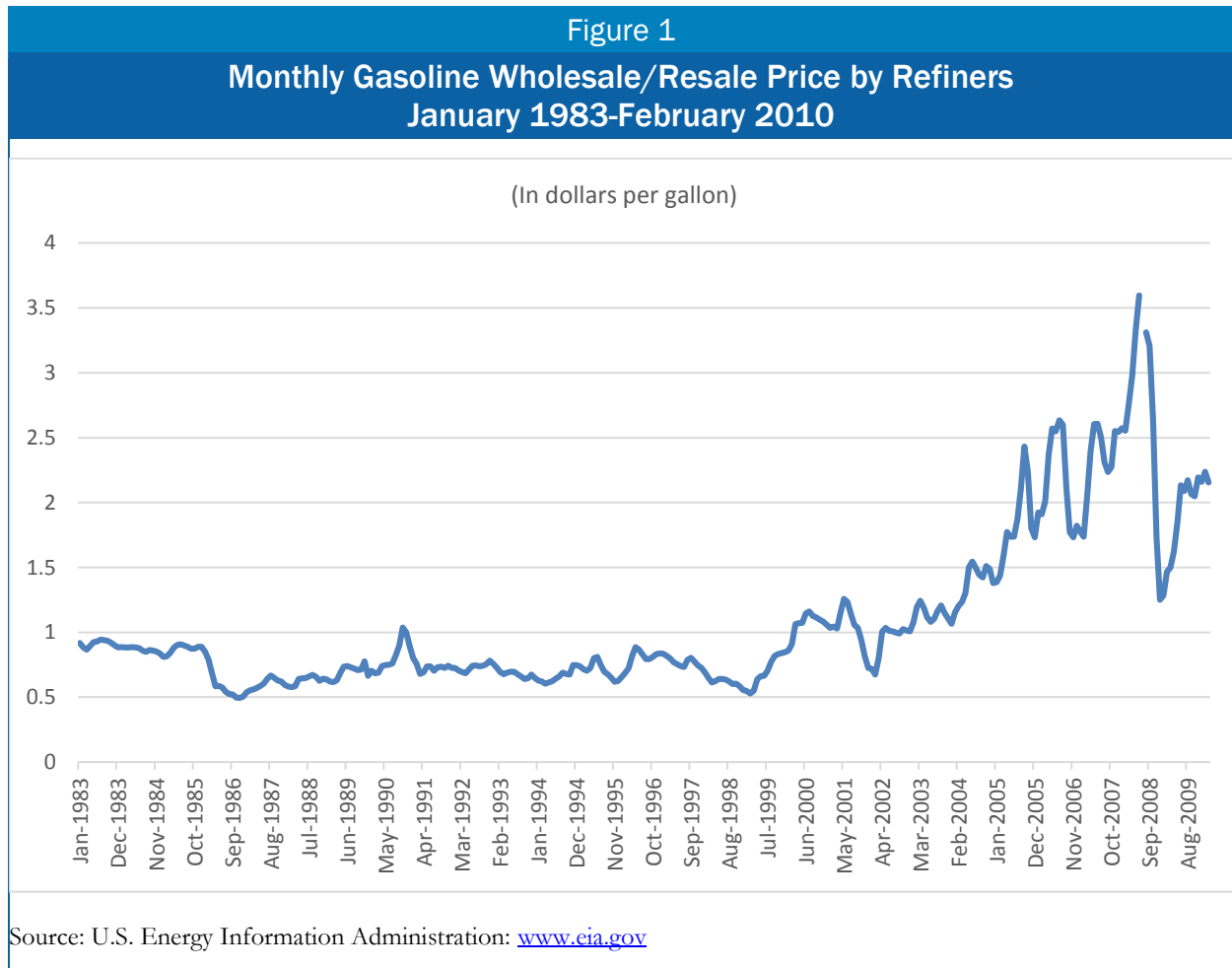
Chairman Evans and members of the Committee, thank you for the opportunity to testify today. My name is Jenny Reed, and I am the Policy Director of the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents.

I am here today to testify largely in support of the proposed changes to fuel tax in the Fiscal Year (FY) 2014 Budget Support Act (BSA). The FY 2014 BSA would repeal the current \$0.235 per gallon tax and replace it with an 8.3 percent tax on the average wholesale price of motor vehicle fuel in the District. This change would help improve the long-term viability of the motor vehicle fuel tax, a revenue source for DC's Highway Trust Fund (Trust Fund) which helps fund maintenance, rehabilitation and construction of major transportation infrastructure in DC. That said, DCFPI has one suggested change to address the potential volatility of fuel prices and its impact on revenue collections.

Over time, revenue collections from the motor vehicle fuel tax have eroded as a result of reduced gas consumption – partly a result of improved fuel efficiency – and because the per gallon tax has not been adjusted for inflation. From FY 2008 to FY 2014, total motor vehicle fuel taxes fell by 11 percent, or \$3.7 million, after adjusting for inflation. Looking over a longer period of time, from FY 2004 to FY 2014, motor vehicle fuel tax collections fell by 35 percent. Concerns have been raised that as people buy more fuel-efficient cars, the per-gallon gas tax becomes a weaker source of revenue for the Trust Fund. Continuing to rely on a per gallon tax that is not adjusted for inflation would very likely continue this trend and mean that DC's ability to keep generating revenues to support transportation infrastructure would be weakened.

By charging the tax on the wholesale price, the proposed change would help improve the long-term viability of gas tax collections because fuel prices tend to rise over time. However, the proposed change also raises a concern about volatility, because wholesale prices of gas tend to fluctuate. This could make the gas tax a volatile revenue source for the Trust Fund. There will likely be years when taxes collected from the new proposal go significantly up or significantly down, based on how prices have changed over time (see **Figure 1**, next page).

We were pleased to see that the FY 2014 BSA contains a minimum floor for the dollar equivalent of the gas tax so that if wholesale prices were to drop dramatically, the corresponding revenues DC would collect would not also take a significant hit.¹ Virginia, which recently changed their motor vehicle fuel tax, adopted a similar measure.



We also suggest that the Council consider adding a ceiling on the amount of any increase in the dollar equivalent of the tax from year to year, so that if fuel prices jump significantly, the tax would not spike at the same time. Both Maryland and West Virginia have included these types of provisions to limit the increases to 8 percent and 10 percent, respectively. Including both a tax floor and a tax ceiling would help ensure collection of a consistent baseline amount of revenue and would also prevent significant upward swings in taxes collected if prices rose significantly in one year.

Improving the long-term viability of the gas tax as revenue source for transportation infrastructure is important and the current motor vehicle tax has unfortunately eroded significantly over time. Tying the motor vehicle tax to the wholesale price of motor vehicle fuel should help to maintain the gas tax a viable source of revenue for the Highway Trust Fund going forward.

Thank you for the opportunity to testify and I am happy to answer any questions.

¹ The FY 2014 Budget Support Act sets the floor as the average wholesale price of a gallon of unleaded regular gasoline on May 19, 2013.